MEXICO, CANADA AND THE UNITED STATES:

THE TRILATERAL FREE TRADE PROPOSAL

A REPORT ON
BRITISH COLUMBIA'S CONSULTATIONS
WITH THE PRIVATE SECTOR

JUNE 1991

MINISTRY OF DEVELOPMENT, TRADE AND TOURISM

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International Economic Policy Branch

MESSAGE FROM THE MINISTER

On February 5, 1991, Canada, Mexico, and the United States announced their plans to begin trilateral negotiations, in an attempt to reach a North American free trade agreement.

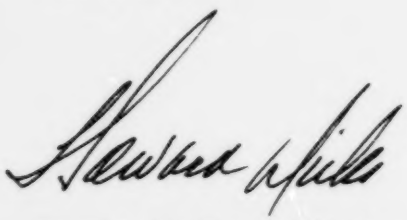
Such an agreement could have an important impact upon the economy and the people of British Columbia. To determine the views of British Columbians on this matter, the Government of British Columbia initiated consultations with the Province's private sector.

The provincial government places a great deal of importance on soliciting the views of the private sector before proceeding with any major trade initiative. For example, extensive private sector consultations were undertaken in 1986 and 1987 on the bilateral Canada-U.S. free trade negotiations. Consultations were also held in 1988 regarding the General Agreement on Tariffs and Trade's Uruguay Round of multilateral trade negotiations.

I am pleased to release this report, which provides the views expressed by members of the Province's private sector during our latest series of consultations. The report simply summarizes those views so that a factual representation of presentations made to the Province may be maintained. It does not represent an official British Columbia position on the trilateral negotiations.

The Government of British Columbia intends to continue consulting with British Columbians regarding the Canada-Mexico-U.S. negotiations, to get a full and accurate assessment of the impact that trilateral free trade may have on the Province.

To ensure that British Columbia's interests in the trade negotiations are fully represented, I encourage you to write to me with your comments or suggestions. Please send them to me at the Parliament Buildings, Victoria, British Columbia, V8V 1X4.



Honourable Howard Dirks
Minister of Development, Trade and Tourism

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EXECUTIVE SUMMARY

In December 1990, the Honourable Elwood N. Veitch, former Minister of International Business and Immigration, initiated a program of consultations with the province's private sector. The minister wrote to more than 240 industry associations, labour unions and companies, seeking their views about the potential effects on their companies or sectors, or on the province generally, of a trilateral free trade agreement between Canada, Mexico and the United States.

By May, a total of 96 submissions had been received (an overall response rate of 39 per cent), from most of the sectors that had been invited to comment. Of the 96 submissions made to the minister, a majority of the respondents, 49 (51 per cent), indicated they favour Canada's participation in trilateral free trade negotiations with Mexico and the United States or felt that a free trade agreement would benefit their industry or the province. A further 19 (20 per cent) were in favour of trilateral free trade but had some specific concerns or urged the provincial government to exercise caution on this issue, while 13 (13 per cent of all respondents) were opposed to free trade with Mexico. Fifteen respondents (16 per cent) did not state a position.

Those who supported free trade with Mexico felt there are numerous benefits to be gained from negotiating a trilateral trade deal. They cited a range of potential opportunities in a variety of fields, including engineering services, telecommunications equipment and services, natural resource products (e.g., coal, solid wood products), financial services, chemicals, retail products, and mining equipment and services.

Respondents from some sectors, however, expressed concern about the implications of free trade, believing that their companies or industries would be vulnerable under a North American free trade agreement. It became very clear that the provincial government will require further details about certain sectors which could be negatively affected by a trilateral trade agreement, or for which the consultations process yielded little information -- for example, cement manufacturing, electronics, fisheries, floriculture, furniture, and textiles and clothing.

Several common issues were raised during the consultations by respondents from all sectors. These included concerns about the risk of investment being diverted away from British Columbia to Mexico, low labour costs and environmental standards in Mexico, and the constraints that are imposed by some of Canada's domestic policies which hinder companies from taking advantage of new opportunities in foreign markets. The most common issue noted in the responses was the need for continued discussions on the subject of North American free trade between the private sector and the provincial government.

Many respondents were of the view that whether or not Canada participates in the U.S.-Mexico trade negotiations, many of the negative effects identified throughout the consultations (e.g., investment diversion, export competition in the U.S. market, adjustments for sensitive industries) will occur anyway as a result of a U.S.-Mexico bilateral agreement.

Assessments of the potential impacts of a trilateral free trade agreement varied in the amount of detail they provided but tended to be very preliminary in nature. Since the associations, labour unions, and companies that responded encouraged the provincial government to implement, and indicated a willingness to participate in, further consultations at a more substantive level, the Ministry of Development, Trade and Tourism will continue consulting with the private sector as the trilateral trade negotiations proceed.

INTRODUCTION

In anticipation of the Canadian government's announcement that it would be participating in free trade negotiations with Mexico and the United States, the provincial government decided to consult with British Columbians to assess the implications of a North American Free Trade Agreement.

In December 1990, the Honourable Elwood N. Veitch, former Minister of International Business and Immigration, implemented a comprehensive program of consultations with the province's private sector. The minister wrote to more than 240 associations, union representatives and companies, asking them to share their views about the potential effects on their companies or sectors, or on British Columbia generally, of a trilateral free trade agreement between Canada, Mexico and the United States. In addition, the minister publicly invited all interested business, labour and consumer groups to submit their views of the proposed trilateral trade negotiations to him in writing.

To initiate this program of consultations, a discussion paper was released, entitled British Columbia and Mexico: The Trilateral Free Trade Proposal. Written by ministry officials, the discussion paper provided a preliminary assessment of the implications for the province of a trilateral free trade agreement.

The minister asked all interested parties to consider, in their responses, four possible areas of impact, which were outlined in the discussion paper:

1. increased Mexican import competition in British Columbia;

2. increased export opportunities in Mexico for British Columbia products and services;

3. increased export competition in the U.S. market from Mexican suppliers and increased competition in the Mexican market from American suppliers; and

4. the possible impacts on investment in the province.

Purpose of the Consultations

The provincial government has always attached a great deal of importance to soliciting the views of the private sector before proceeding with any major trade initiative. For example, extensive private sector consultations were undertaken in 1986 and 1987 during the bilateral Canada-U.S. free trade negotiations. They were also held in 1988 during the Uruguay Round of GATT Multilateral Trade Negotiations.

The purpose of the private sector consultations on the trilateral trade negotiations was similar to that of previous consultations the ministry has held on international trade matters. In the case of the trilateral negotiations, it was:

1. to obtain information from informed sources in the private sector to supplement, or modify, the ministry's internal analysis and to incorporate the views of the private sector into provincial positions which will, ultimately, be presented to the federal government;

2. to initiate discussion between the provincial government and the province's private sector in order to:

   (a) encourage the private sector to communicate its views, concerns and needs regarding trilateral trade issues to the Ministry of Development, Trade and Tourism; and
   (b) establish a communication link by which continuing discussions could be held throughout the trilateral negotiations.

The Consultation Process

A number of participants in the consultations indicated that they were unable to provide the level of detailed analysis in their submissions that they would have liked. The minister, recognizing the need for ongoing consultations with the private sector on the issue of trilateral trade, has continued to encourage companies, labour unions, and industry and consumer associations, that have not provided responses, to still consider forwarding their views to him by letter. These views will be valuable as the Ministry of Development, Trade and Tourism prepares the province's negotiating objectives and strategies.

Response from the Private Sector

By mid-March, a total of 96 responses had been received, representing a response rate of 39 per cent. **The majority (71 per cent) of those who took part in the consultations favoured Canada's participation in trilateral free trade negotiations.**

Of the **96** responses, **49 (or 51 per cent)** expressed support for Canada's participation in trilateral free trade negotiations and optimism about the impacts of a North American free trade agreement, **19 (20 per cent)** urged a cautious approach or were in favour of free trade generally but expressed some specific concerns, **13 (13 per cent)** were opposed, and **15 (16 per cent)** did not state a position.

For a breakdown of the overall positions taken by specific sectors and sub-sectors, reference can be made to Appendices 4 and 5.

Report

An important objective of this report is to ensure that the opinions and comments submitted by participants in the private sector consultations are presented clearly and, in most cases, without attribution. The names of associations and labour unions have been included in the report, but those of individual companies have not. As indicated in the Table of Contents, the report provides a sector-by-sector discussion of the implications of trilateral free trade. Issues that were frequently raised by respondents from a variety of sectors are included in a separate section following the sectoral assessments. Relevant background documents are included in the Appendices.

PRIVATE SECTOR RESPONSES

I. GOODS

AEROSPACE

The province's aerospace industry expressed support for the concept of free trade with Mexico, provided it truly is a free trade agreement, encourages fair trade, and is structured in such a way as to ensure that the three countries which are parties to the agreement comply with ethical business practices.

Representatives of the industry pointed out that, although there likely would be little or no impact upon the industry in the short to medium-term following the implementation of a trilateral free trade agreement, there could be some long-term implications. For instance, the United States is the local industry's largest customer for aerospace products. Since aerospace manufacturing is both capital-intensive and labour-intensive, the inexpensive labour costs in Mexico could have two effects if a bilateral or trilateral trade agreement were concluded:

(a) stiff competition in the U.S. market between British Columbian and Mexican aerospace producers could increase as they compete head-to-head; and/or

(b) investments in aerospace plants and equipment could be diverted away from the province and into Mexico.

AGRICULTURE AND FOOD PROCESSING

Overall, there was a roughly even split in this sector between respondents who favoured Canada's participation in trilateral free trade negotiations, those who favoured a cautious approach, and those who expressed opposition to Canada's participation.

Egg Producers

Egg producers in British Columbia urged the provincial and federal governments to move cautiously with regard to the prospect of trilateral free trade with Mexico.

At this stage, Mexico is not a priority market for provincial egg producers. There is no record of British Columbia importing or exporting eggs or egg products to Mexico. A more important concern is the outcome of the Uruguay Round of GATT trade talks, and the related impact on Article XI, which governs Canada's agricultural supply management system and its accompanying import quota regime. Until the GATT negotiations are resolved, the province's egg producers believe it is not productive to discuss a trilateral free trade agreement.

Food Processors

British Columbia's food processors are generally supportive of the proposed trilateral negotiations. Their feeling is that, like the Canada-U.S. Free Trade Agreement (FTA), trilateral free trade with Mexico will not have a major influence on the future decisions and market performance of British Columbia's food processors.

However, they suggested that the Canadian Agricultural Product Standards Act (and the related issue of price-setting with local growers) and the existing marketing board system handicap the province's food processors and prevent them from benefitting from liberalized trade. No details or specific examples were provided to show how these policies affect the industry's competitiveness in foreign markets or its ability to export.

If agreement is reached in trilateral negotiations to implement a tariff elimination schedule (such as the scheduled phase-out of tariffs provided for in the FTA), British Columbia's food processors caution that the province must ensure that it is adhered to -- i.e., there must be no accelerated tariff reductions for horticultural products a year or two later as occurred following the implementation of the FTA.

Not all food processors expressed optimism about the effects of free trade with Mexico. Concerns were raised about the implications for the horticultural/food processing industry. Some respondents pointed out that:

- Mexico has a strong horticultural potential based on a low-cost agricultural industry; and

- there could be increased competition with Mexico for market share in the rest of Canada -- lower tariff protection would result in fewer shipments from British Columbia to other parts of Canada.

Respondents applauded the British Columbia government for studying the trilateral free trade initiative carefully before committing its support to it. They recommended that any final studies that are released should be detailed and open to public scrutiny. They also believed that a proper analysis should include both quantitative and qualitative aspects (since it is difficult to quantify the social costs of adjustment).

Processed Meats

One producer expressed cautious support for trilateral free trade and indicated that it is already doing some business in the Mexican market. However, the low unit value of current sales to Mexico reflects the fact that Mexico is primarily a market for lower-value items. This is believed unlikely to change with a trilateral free trade agreement.

Given that Mexico is not a factor in the production of pork and processed meat products, no direct consequences are expected in the domestic market should a free trade agreement be concluded.

The processed meat business is very labour intensive, and concern was expressed about the possible erosion of companies' competitiveness as U.S. producers avail themselves of cheaper Mexican labour. However, meat processors indicated that the magnitude of the impact of this issue on the processed meat industry is not as great as is the damage that has been caused by the federal government's monetary policy.

A second producer (of processed poultry products) did not explicitly state its position on the issue of trilateral free trade but appeared to be opposed to the concept. This company suggested that there may be some potential in terms of investment in, and cheaper input supply from, Mexico for the province's processed poultry product manufacturers. But there is believed to be very little export potential in Mexico at the present time. In addition, a number of factors give American processed poultry producers an advantage over Canadian producers:

- proximity to the Mexican market;
- cheaper labour costs; and
- lower input costs and taxes.

From this producer's perspective, the Canada-U.S. FTA is slowly eroding the poultry industry's position in both British Columbia and Canada. Companies are either consolidating or moving to the United States. The respondent presumed that trilateral free trade would have a similar impact.

Nurseries

The B.C. Nursery Trade Association expressed support for free trade with Mexico. In a telephone conversation with ministry officials, the association distinguished between nursery stock (outside shrubs and ornamentals) and floriculture (cut flowers and inside plants).

The association believes that there is very little possibility of Mexico becoming a threat in either the Canadian or American markets because Mexican ornamentals and shrubs are grown under very different climatic conditions. However, there may be some competition for the cut flower industry in British Columbia because Mexico is a major exporter of cut flowers.

The Nursery Trade Association also highlighted the need for rigorous plant quarantine rules to prevent pest imports into Canada. Otherwise, this respondent did not foresee any real difficulties arising from trilateral free trade. It did suggest, however, that the floriculture sector, greenhouse sector and outdoor vegetable growers may have a different perspective on free trade with Mexico than does the nursery sector.

Greenhouses

The Western Greenhouse Growers Co-op Association expressed opposition to the proposition of free trade with Mexico, indicating that the industry in British Columbia stands to lose as a result of increased competition from Mexican imports.

Greenhouse growers in the province produce relatively higher-cost, but superior-quality, products such as tomatoes, cucumbers and peppers. The feeling in the industry is that, given a choice, consumers would tend to purchase cheaper Mexican produce, even if it is inferior in quality to British Columbia produce. According to the association, the Mexican industry has a number of advantages: access to cheaper labour, land and energy, as well as a climate more conducive to growing vegetables. The association also pointed out that Canada's existing seasonal tariffs provide only some protection from imports from Mexico.

Fruit

Representatives of the province's tree fruits industry agreed with the ministry's analysis that there may be some difficulty at this stage in ascertaining the potential impacts of free trade with Mexico. They emphasized, however, that the negative effects for British Columbia, if any, will occur whether or not Canada participates in the U.S.-Mexico trade negotiations.

Therefore, the tree fruits industry believes that Canada should:
- o be present during the negotiations in order to keep track of developments; and
- o likely become a formal part of a trilateral agreement.

A producer of dried fruits expressed greater caution. Explaining that producers of dried fruits operate in a global marketplace that is extremely competitive, the company pointed out that their ability to compete on price is limited because they generally do not have the economies of scale that result from a large domestic market. They can, however, compete by niche marketing and maintaining unique product lines.

The dried fruit producer felt that under a trilateral trade deal, it would not be able to compete with Mexico if the Mexicans manufactured a product identical to its product.

BEVERAGES

Beer

The domestic brewing industry did not state an explicit position on the proposed trilateral free trade negotiations, nor did it specifically assess the implications such negotiations could have for the industry in British Columbia. However, it did outline a number of issues it felt the provincial government should take into account when Canada participates in trilateral trade talks.

For example, if beer is included in any deal negotiated between Mexico, Canada and the United States, care must be taken to ensure that an adequate transition period is afforded British Columbia brewers so that they can compete effectively. Similarly, any agreement must take account of the transition periods that may result from the settlement of three outstanding issues:

- o an interprovincial barriers agreement;
- o a Canada-EC agreement settling an outstanding GATT panel dispute; and
- o a Canada-U.S. agreement related to the current American complaints about Canadian beer marketing practices.

When considering the possibility of a trilateral free trade agreement, the provincial government must also keep in mind the fact that the province's brewing industry currently offers relatively easy market access when compared with Mexico, where the market is highly regulated through distribution. The Mexican market is among the most closed in the world as far as access for imported beer is concerned. Mexico relies almost solely on "purchased distribution exclusivity" at the retail level, thereby keeping out all other competitors. Consequently, penetration of that market by imports has been minimal.

The British Columbia brewing industry recommended that a process be established to ensure that there is close consultation between the federal and provincial governments on all matters that affect provincial jurisdiction. The practices of the Liquor Distribution Branch and the Liquor Licensing Branch are an obvious example, as are environmental issues such as the impact of used beverage containers originating from outside Canada. In addition, the province was urged to ensure that a mechanism exists to guarantee consultation with the brewing industry on all issues that may affect its viability.

The provincial government was also urged to recommend to the federal government that any agreement that is negotiated with Mexico should include transition arrangements and terms for Canada which are separate and distinct from those affecting the United States. This would recognize significant differences in the structure of the markets in the two countries. The industry also suggested there should be an initial focus on "country of origin" trade liberalization, as opposed to trans-shipment from Mexico to Canada via the U.S. (which may be employed in an effort to bring those items under the umbrella of the existing Canada-U.S. FTA).

Cider

British Columbia has a competitive edge in North America in the production of cider. The province's small producers of cider feel they are much better off as a result of the provisions of the Canada-U.S. FTA. Therefore, similar provisions in a trilateral free trade agreement should have a similar effect.

One caveat placed on the support expressed for free trade was that interprovincial trade barriers should be removed before international barriers are targeted.

Wine

Only one of the major wineries provided a position but, since that particular company's parent corporation is engaged in all facets of the beverage alcohol business (beer, wine and spirits), its comments were intended to apply to the alcoholic beverage sector in general, rather than the wine industry in particular.

According to this respondent, the Canada-U.S. FTA has subjected the alcoholic beverage industry to severe pressure. Higher raw material costs, higher employee wages and benefits, and higher business and product taxes make it difficult for Canadian producers to compete with their U.S. counterparts. A free trade agreement which included Mexico would perhaps pose some additional strains on alcoholic beverage producers in the short-term, although the long-term gains may outweigh any short-term effects.

The respondent explained that it generally opposes protectionism but does hold the government responsible for protecting the province's unique social and physical environment.

One estate winery wrote the minister and, although no formal position on trilateral free trade was stated, pointed out that interprovincial trade barriers should be removed before international barriers are addressed.

Water

According to the lone respondent from the water industry, the province's fresh water industry could benefit from many opportunities in a North American market of 355 million people, provided that proper management and quality control rules are in place.

COMMUNICATIONS AND TELECOMMUNICATIONS

Respondents from this sector support the trilateral free trade proposal, taking the view that all three countries will benefit from the productivity and output gains that will result from reductions in trade barriers. Their view is that opportunities for new sales into Mexico far outweigh any potential loss of business to Mexican imports or loss of manufacturing to low-cost Mexican labour.

In addition, the view was expressed that the developing European trade bloc needs a counterweight to ensure continued movement in the direction of an open and fair international trade system. The establishment of a North American Free Trade Area, encompassing approximately 355 million people, would provide this counterweight and improve the leverage of the North American region in global trade talks in the decade ahead.

One company that has exported television transmitters and cable television equipment to Mexico for some time stated that, under a trilateral agreement, the end cost to its Mexican customers would decrease due to the elimination of tariffs. Assuming some price elasticity, sales should also increase for these products. The company also explained the importance of Canadian firms participating in the global marketplace -- a trilateral free trade agreement would assist British Columbia firms in strengthening their competitive advantages.

Another respondent pointed out that establishing a modern telecommunications system is one of the current Mexican government's priorities. The volume of business would likely increase as a result of the modernization of Mexico's telecommunications system and the expected growth in Canada-Mexico trade and tourism arising out of a free trade agreement. Combined with the continued liberalization of the Mexican market and the Mexican government's desire to stimulate economic growth, this will likely present significant opportunities to Canadian telecommunications companies.

This respondent also took the position that Mexico's lower labour costs will benefit British Columbia by reducing the costs of the products it must import. At the same time, a stronger Mexican economy (which will come about as a result of the Mexican government's efforts to liberalize that country's economy as well as from the stimulus of a North American free trade area) cannot help but increase the demand, in Mexico, for both the raw materials and the high-technology products and services that British Columbia can offer.

For the foreseeable future, Mexico's economic strengths will lie in sectors and fields that are typical of an economy which is less mature than British Columbia's and that are unlikely to conflict with the province's future path of development.

This telecommunications company also believed that the current Canada-U.S. FTA offers a good model for the telecommunications portions of any future North American Free Trade Agreement (NAFTA). The company noted, however, that since the U.S. signed the FTA, the U.S. telecommunications and information policy agenda has evolved substantially. Because of the technological, policy and market changes that have taken place, the U.S. may seek to reflect these changes in a tripartite agreement. The respondent suggested that any such update of the telecommunications provisions embodied in the Canada-U.S. FTA should be approached with caution.

Another respondent raised the concern that when the trilateral free trade agreement is implemented, Canada should ensure that Mexican border procedures comply with the intention and spirit of the agreement. Suspicion was expressed that whatever provisions are actually stated in the final agreement, the Mexican customs bureaucracy will create "administrative trade barriers".

Finally, on a general note, the federal government's monetary and fiscal policies were targeted as hindering the competitiveness of British Columbia companies in the communications and telecommunications sector.

ELECTRONICS

Representatives of this industry indicated that free trade with Mexico likely would have no major effect on it, but they nevertheless expressed support for Canada's participation in the trilateral negotiations.

Despite its initial assessment that the impact of a bilateral U.S.-Mexico free trade deal would have a minimal impact on its own future, one company felt that it would be extremely dangerous for Canada not to participate in the negotiations. It further stated that, should the U.S. enter into a bilateral trade agreement with Mexico (and other countries), the advantages gained by Canada under the Canada-U.S. FTA would be seriously undermined. Therefore, Canada should enter the negotiations to:

- gain a clear sense of the direction the negotiations might take; and
- participate in a trilateral free trade agreement if that appeared to be to Canada's advantage.

According to respondents, there may be some sales potential in Mexico but the British Columbia industry has not yet taken advantage (or become fully aware) of all the opportunities that have arisen in the U.S. market since the implementation of the Canada-U.S. agreement. It was pointed out, however, that Mexico could provide an important extension to the vital "domestic market" for this industry that runs along the West Coast into Southern California.

The industry does not foresee any competitive threat in the Canadian market for the domestic high-technology and electronics manufacturing industry nor any strong export competition in the U.S. market from Mexican manufacturers.

Nor do representatives from this industry foresee any movement of operations to Mexico since it is too far away to maintain close management supervision and quality control from British Columbia, and the existing management infrastructure in Mexico is not as good as in countries like Taiwan. The one problem the industry noted it faces in British Columbia, which cannot be directly rectified by a free trade agreement, is the difficulty faced by companies in accessing equity investment or working capital.

ENERGY

Three companies from this sector submitted their views, and all encouraged the government of British Columbia to endorse the concept of a trilateral free trade agreement. The companies represented the gas distribution, backup power-generation and electric industries.

Gas

In explaining its support, the gas company simply stated that, although the specific nature of the long-term effects of a trilateral trade agreement are unknown, increased trade with other North American countries is certain to provide numerous opportunities for British Columbia-based industry.

Electricity

The electric company which participated in the consultations has been active internationally for a number of years, providing engineering and consulting services related to the electric industry and sophisticated electronic equipment to clients in many countries, including a number in the Third World. However, until recently, this company was quite skeptical about opportunities in the Mexican market. This was due, in large part, to its recognition that non-Mexican companies operating in Mexico would face difficulties in the areas of ownership, payment of fees, exchange control, work permits and location of contract execution (i.e., Mexico and/or Canada). It has since become very clear to the company, however, that Mexico is in a state of significant economic transition.

The planning, design, construction supervision, commissioning and operation of Mexico's electrical generating, transmission and distribution system is in the hands of Mexico's monopolistic Comision Federal de Electricidad (CFE). It is expected that CFE, or portions of it, will eventually be privatized. This transition could allow for project development and possibly the operation of new generating and transmission facilities by private sector Mexican and non-Mexican companies.

The respondent believes that the Mexicans are inclined to view the proposed free trade agreement and other liberalizing changes underway in Mexico as a means to more easily obtain equipment, technology and specialized services from Canada and the United States. The U.S. has dominated these areas for decades, and Mexico appears interested in developing stronger links with Canadian suppliers.

British Columbia's manufacturing industry for electric utility equipment and systems is very limited and, in the short term, is unlikely to be competitive when compared with Japanese and American equipment. This is particularly true of Japanese equipment, which is often provided along with financing on extremely attractive terms. Therefore, opportunities are very limited in Mexico for British Columbia manufacturers of electric utility equipment.

The respondent believes that long-term opportunities in this sector will probably take the form of joint ventures or other types of associations between offshore manufacturers and financiers, and Mexican contractors and consultants. Possible projects include the development of medium-sized generating projects and their associated transmission systems which would later be integrated into the Mexican national grid.

Power Systems

The third company that responded in the energy sector is a producer of backup/standby power systems. According to this company, a trilateral free trade agreement would provide it with some good export opportunities. Backup/standby power systems produced in Mexico cannot compete with equivalent systems produced in British Columbia because of the poor quality of the Mexican products. Therefore, this company believes that not only is Mexico a good potential market in its own right but there is also very little fear of British Columbia producers losing their market share in the U.S. or Canadian markets to Mexican producers.

Apparently, the labour component involved in manufacturing these power systems is not very large. In addition, labourers have to be sufficiently skilled and consistent in the quality of their work that Mexico's maquiladora zone holds no real attraction for British Columbia manufacturers of these products. Therefore, although the labour savings enjoyed by producing such power systems in Mexico might significantly reduce overall costs, British Columbia's power system products are largely sold on the basis of their quality and reliability -- cost is not the critical purchase factor.

FISHERIES

Traditionally, British Columbia's fishing industry has generally supported efforts to liberalize trade, due to its heavy dependence on exports. However, little support for trilateral free trade was offered by respondents from this industry.

The United Fishermen and Allied Workers' Union (UFAWU) expressed general opposition to free trade with Mexico, explaining that a free trade agreement would have far-reaching and negative impacts on the province's industries and citizens. It feared that Mexico's low labour rates would attract container-loads of raw product from British Columbia to be processed in Mexico.

In addition, because of Mexico's lower standards (presumably safety, hygiene, and environmental), the respondent felt that Mexico may also attract British Columbia companies seeking to establish their processing operations in a less restrictive environment. Finally, the UFAWU called upon the provincial government to hold public hearings on the subject of free trade with Mexico.

Another respondent made it clear that, while it is not sufficiently familiar with the Mexican market to comment about the implications of a North American free trade area, it does not support Canada entering free trade negotiations with Mexico. The respondent explained that this position could change, once it had had an opportunity to reflect upon the observations and recommendations of an upcoming industry mission to Mexico.

In the opinion of this respondent, the Mexican market has been pretty much closed to British Columbia fish exports due to high Mexican import tariffs and low personal incomes. The respondent was also unsure whether or not Mexico has the facilities or infrastructure necessary to handle fresh, chilled, or frozen British Columbia fish products, so that any opportunities which might arise will probably come in the "canned" segment of the market.

However, because canned tuna (of which Mexico is a major exporter) currently competes with canned pink salmon from British Columbia, there could be some cross-substitution or displacement problems in this product.

Furthermore, because Mexico's tuna harvest is not considered "dolphin-friendly", it is currently prohibited from the U.S. market. By comparison, most of the province's imported tuna comes from South-East Asia and is supposed to be "dolphin-friendly". However, if British Columbia experiences a large increase in Mexican tuna imports as a result of a free trade agreement, the province's existing tuna importing companies may find themselves side-swiped by the displacement of their "dolphin-friendly" Asian product or by having their Asian product mixed up with the "dolphin-unfriendly" Mexican catch.

A third respondent shared many of these views, but took a neutral position towards trilateral free trade, believing that it would have a minimal effect on the province's fishing industry, overall. This company took the view that Canada should be at the negotiating table if it can negotiate from a position of strength and is willing to defend the interests of British Columbia's fishing industry. The company expressed its view that this certainly has not been the case in the past.

There is little concern that salmon canning operations in the province will move to Mexico to take advantage of the low wage rates for labourers. If such operations were to move, they would more likely move to Washington State in order to have a presence in the American market.

FORESTRY

The forest industry in British Columbia relies on the export market to provide stable employment for over 250,000 people. Access to other markets is obviously a high priority for the industry, particularly during periods of low domestic demand and soft prices. Nevertheless, there is a wide range of views in the industry regarding the implications of a trilateral free trade agreement.

Pulp and Paper

Mexico is not currently an important export destination for British Columbia's manufacturers and marketers of paper products. However, one company, a sanitary paper manufacturer, was generally in favour of Canadian participation in the U.S.-Mexico talks. It noted, however, that a trilateral free trade agreement with Mexico would have to be very specific about "rules of origin".

The Canadian Paperworkers Union clearly opposed free trade with Mexico for the following reasons:

- Free trade with Mexico would lead to pressure to reduce wages and environmental and social standards in Canada.

- Mexico's maquiladora zone offers a giant pool of low-wage, non-union labour. Also, regulatory restrictions of any type are virtually non-existent. The respondent went on to explain that, as a result, the Canadian business sector favours free trade because it can take advantage of these conditions in order to maximize profits.

- Free trade with Mexico would nhance and entrench the power of Canada's corporate sector to pursue its drive for competitiveness at all costs -- even at the expense of Canadian workers. Corporations would be free to shift production from Canada to Mexico and export back into Canada without hindrance. Those companies remaining in Canada would then exert pressure on domestic labour unions for concessions, citing the need to remain competitive and using the threat of relocation as a bargaining lever. These corporations would also pressure governments to "water down" existing standards, laws and taxes, in order to match conditions offered in Mexico.

The Canadian Paperworkers Union also suggested that Canada's trade interests would be better advanced through the multilateral trade negotiations of the GATT.

The Canadian Pulp and Paper Association explained that the industry has previously urged world-wide free trade in pulp, paper and paperboard. The industry's interest in market access is understandable given that 80 per cent of its production is exported. Despite its dependence on export markets, however, the association expressed concern about the potential implications that could flow from a trilateral free trade agreement. This concern is based on the impact that current federal economic and policy considerations are having on Canada's industrial competitiveness. The association feels that timing and various economic factors must be carefully assessed in order to optimize the value of a trilateral agreement.

Based on these views, the association expressed overall caution to a Canada-U.S.-Mexico free trade agreement.

Lumber

The Council of Forest Industries of British Columbia (COFI) strongly supported Canada's involvement in trilateral trade talks with Mexico and the United States.

According to COFI, Mexico's forest land tenure system, as well as the country's lack of access roads and infrastructure, have been strong deterrents to large-scale industrial forest development. It is expected that these deficiencies will continue to impede industrial development of Mexico's forests in the foreseeable future. Therefore, the Mexican industry will continue to rely on imported forest products to meet its domestic needs.

Until recently, Mexican tariffs on processed solid wood products ranged from 37 per cent for softwood lumber to 45 per cent for plywood. Recent unilateral cuts have reduced tariffs to more reasonable levels that range from 10 per cent for pine and fir lumber to 20 per cent for joinery wood. As Mexico develops economically, the demand for solid wood products will increase considerably. With tariff rates at current levels, British Columbia's forest industry has a good opportunity to penetrate the Mexican market. Should a trilateral free trade agreement be concluded, the solid wood products sector of the British Columbia forest industry will benefit even more from the expected elimination of all tariffs on forest products.

Any boom in housing construction in Mexico will particularly benefit the province's interior forest industry. Dimension lumber and plywood are the natural choices for safe, comfortable and affordable housing. Even if product produced in the southern U.S. ends up supplying most of this demand, the redirection of this southern U.S. product away from its traditional domestic markets will create new opportunities for British Columbia suppliers.

Low Mexican labour rates will undoubtedly attract further investment in Mexico's secondary wood manufacturing sector. Limited domestic supplies of joinery quality wood will oblige manufacturers to import large volumes of lumber. British Columbia is ideally suited to supply this need. According to COFI, lower grade material, particularly from the coast forest region, would be the probable choice for Mexican processors. It is also, coincidentally, the material that British Columbia's solid wood producers have traditionally had the greatest difficulty in marketing at a profit.

Value-Added Wood

A value-added wood manufacturer urged the provincial government to be very cautious about supporting Canada's entry into free trade negotiations with Mexico. It cited the expectations of labour in the province (presumably in terms of wages and benefits) as compared to those of Mexican workers as a major concern. Even in competition with American labour, this British Columbia value-added manufacturer found itself disadvantaged. It believes it would be even more difficult to compete with low-cost Mexican manufacturers.

Apparently, value-added wood products, including finished and semi-finished goods, are already being produced in modern Mexican plants by American operators who have moved there to cut costs. Not only is this a concern for the respondent from a competitive point of view, but also it highlights the significant risk of investment diversion to Mexico.

Furniture

According to the only furniture manufacturer that wrote the minister, the Canada-U.S. FTA has had a negative impact on Canada's domestic furniture manufacturing industry.

On a cost-for-cost basis, Canadian furniture manufacturers operate under significant disadvantages vis-a-vis their American counterparts (e.g., labour, social benefits and transportation costs which exceed those of U.S. firms by a considerable margin). The federal government's high interest rate and tight monetary policies have only exacerbated these cost-related problems.

According to the respondent, Mexico does not present a viable market opportunity for the province's furniture industry. Furthermore, its manufacturing sector is poised for significant growth and, given its favourable cost structures, will constitute a serious threat to both Canadian and American manufacturers.

Overall, therefore, this company was not in favour of trilateral free trade. However, if Canada were to participate in the negotiations, it recommended that Canada ensure that the prerogative of a graceful exit from any ensuing trilateral negotiations be carefully preserved.

MANUFACTURING

According to a survey of the members of the Canadian Manufacturers Association (CMA), 88 per cent of the respondents are in favour of Canada joining the U.S.-Mexico trade negotiations, while only 4.6 per cent say that Canada should not do so.

According to the CMA, British Columbia manufacturers support discussions which lead to freer trade, but they are concerned that the provincial government is not doing everything it can to ensure that British Columbia companies can compete on an equal footing. For example, manufacturers continue to be concerned that the federal and provincial governments are hampering their competitive position. The Canadian Agricultural Product Standards Act, marketing board system, stumpage rates, interprovincial barriers, and so on, are all perceived to be handicaps and disincentives for British Columbia exporters of manufactured products.

CEMENT

Two companies from the cement manufacturing industry, as well as the Canadian Portland Cement Association, submitted their views on the proposed free trade agreement with Mexico.

In general, the cement industry feels it will have difficulty competing against Mexican cement producers. Since cement and its principal constituent, clinker, have moved duty free throughout the world for a number of years, tariffs are not a primary concern.

In the past decade, Mexico has become a major world player in terms of cement exports. Cementos Mexicanos (CEMEX), Mexico's largest cement producer, controlling over 60 per cent of the country's capacity, is the major cement manufacturer in North America, and is the fourth-largest cement manufacturer in the world.

Lower costs of production, notably labour and fuel costs, enjoyed by Mexican producers, have limited British Columbia cement producers' success in selling cement product to Mexico. In recent years, Mexican product considered to be excess to domestic needs has been absorbed by the California market.

These companies feel that a trilateral free trade agreement will provide little or no benefit to the province's cement manufacturing industry. In fact, with existing labour and fuel costs in British Columbia, the industry could be at a disadvantage with Mexican producers. However, if other British Columbia industries benefit from such a trade arrangement, the industry may see indirect benefits in the form of increased capital investment in the province.

CHEMICALS

Both companies from this sector that submitted their views to the minister expressed strong support for free trade with Mexico.

One firm, which is currently attempting to develop a business relationship with Mexico, felt that any reduction of tariff barriers that may occur as a result of a free trade agreement would only help its cause. A trilateral agreement likely would not have any negative impact on the company's highly specialized business, since it manufactures chemicals from raw materials not readily available in Mexico and for which the labour component is small.

The other company, which currently does some business in Mexico, explained that there is great export potential for manufacturers of specialty concrete chemicals and coatings for the construction industry.

MACHINERY AND EQUIPMENT

The Machinery and Equipment Manufacturers' Association of Canada, as well as three provincial companies, addressed the issue of trilateral free trade. The association recognized the need to create a North American free trade agreement and stated that Canada, with consultation and input from the provinces, should be a participant in the negotiations to ensure that a fair and equitable agreement is reached that encourages growth for British Columbia's economy.

Most of the association's British Columbia members manufacture products to serve niche markets and have enjoyed an increasing share of the export market. The proposed trilateral agreement should create greater market opportunities for these manufacturers. These manufacturers have survived the graduated tariff cuts under the GATT and the Canada-U.S. FTA and do not foresee any difficulty with further tariff cuts under a trilateral trade treaty. Their primary concern is the high rate of the Canadian dollar vis-a-vis the U.S. dollar, which seriously affects their export business.

The majority of the metal manufacturing industry in the province is comprised of machine shops and fabricating plants which rely heavily on labour-intensive custom work where price is the key factor in competitiveness. If sourcing from Mexico proves to be reliable for British Columbia manufacturers seeking custom-made inputs, cheaper, and of equal quality, the general metal manufacturing industry could be seriously affected.

One of the companies which responded from the machinery and equipment sector observed that, in a world so obviously shrinking in a communication and transportation sense, it is better to work toward, and anticipate, "globalization" than to simply react to it.

Another company raised the problem of the lack of business ethics in Mexico. In the past, this company has apparently lost or foregone business in Mexico because of its refusal to offer under-the-table payments. The question was posed as to how British Columbia companies will be able to compete if they do not resort to participating in unethical business practices. Often, it is a requirement to get on the short-list for contracts.

None of the companies foresaw any negative impacts on their activities or operations, but neither did they foresee any major opportunities.

MARINE AND SUBSEA

The one company that responded is a high technology manufacturer that exports approximately 80 per cent of its production. It took the position that British Columbia's interests are best served within a North American trade bloc. To stay outside a North American free trade zone could only result in Canadian manufacturers, with their sights set on international markets, being forced to locate in countries with a more enlightened attitude towards freer trade.

The company pointed out, however, that Canada must ensure that a trilateral agreement does not result in an exclusive "Fortress North America". Room must also be negotiated for Canada to be free to trade with countries outside the trilateral group. Addressing the "morality" of concluding a free trade agreement with Mexico, an issue raised by some critics of trilateral free trade, this respondent stated that it is preferable to give less developed countries such as Mexico a fair trade opportunity instead of institutionalizing their poverty through trade barriers and keeping them reliant on foreign aid.

SPORTS EQUIPMENT

The respondent, a successful exporter of sports equipment, stated that a trilateral free trade agreement with the U.S. and Mexico would bring increased competition in the price-sensitive, high-volume sporting goods markets, both in the export of British Columbia products to the U.S. and within the domestic market.

The sports company recommended that British Columbia sporting goods distributors or manufacturers be informed that with the huge disparity in labour costs between Canada, Mexico and the U.S., prices may fall if American firms move their manufacturing operations to Mexico. The respondent pointed out that, in the short term, it would not be affected because the quality control of its high-value finished products is, for now, virtually impossible to achieve elsewhere.

TEXTILES AND CLOTHING

The responses from the province's garment industry were somewhat surprising. With one exception, the respondents generally opposed or were only somewhat in favour of free trade with Mexico. Ironically, however, while a number of clothing manufacturers suggested that free trade with Mexico could have a negative impact on the industry as a whole, none of them felt it would hurt the competitiveness of their particular company.

The view expressed repeatedly by respondents was that a trilateral free trade agreement would have a negative affect on most textile manufacturers. The reason given was that they would have to compete with a large underpaid Mexican labour force.

According to the respondents, Mexico's labour pool is ideally suited for the textile business -- it is semi-skilled, female and available in large numbers. Under a free trade agreement, the Canadian market will be wide open to cheap imports, which will probably benefit consumers, but would hurt the domestic textile industry. It was pointed out that workers in this industry will have a difficult time finding alternate employment. It was pointed out by some respondents, however, that the British Columbia clothing industry's interests lie primarily in <u>garment</u> manufacturing, not <u>textile</u> manufacturing.

A further concern raised was the potential for a trilateral agreement to divert investment away from British Columbia towards Mexico, where labour costs are lower. This could result in a loss of potential investors, particularly from the Orient, who previously viewed British Columbia as an attractive base for exports to the United States.

This latter concern was qualified by some respondents, however, who pointed out that this disadvantage will occur whether or not Canada is party to the bilateral negotiations between the U.S. and Mexico.

For some of the companies, Mexico likely would not be a good export market. But they emphasized that there could be some advantage in being able to import fabrics on a duty-free basis from a low-wage country such as Mexico. In essence, a North American Free Trade Agreement would give the British Columbia garment manufacturing industry a cheaper and more "domestic" source of inputs than off-shore imports.

The only clear supporter of free trade with Mexico stated that a free trade agreement between Canada, the U.S. and Mexico must also be a fair agreement. All parties to such an agreement must act in accordance with the spirit of the agreement -- something this company believes the U.S. has not done with the Canada-U.S. FTA.

TRANSPORTATION EQUIPMENT

Of the two companies from this sector that responded to the minister's request for their views on free trade, one expressed strong support for trilateral trade negotiations while the other conveyed some concern.

The company in favour of free trade with Mexico has already established a portion of its operations in Mexico, consistent with its corporate philosophy to establish operations close to its customers. The company feels it has a competitive edge over Mexican producers since it can offer technical advice as well as access to the company's computerized inventory. The respondent emphasized the need for the government to help Canadians and British Columbians to get to know the opportunities available in Mexico.

A second company suggested that the overall impact on the truck and trailer manufacturing industry in British Columbia of a trilateral free trade agreement, at first glance, would appear to be neutral. This company does not expect to gain any significant access to the Mexican market, nor does it expect that Mexican imports will displace British Columbia products.

Of concern to the respondent, however, is the potential impact of a trilateral agreement on the Autopact Agreement, as well as on the present structure of the component manufacturing industry and on the location of vehicle assembly operations. If the Autopact Agreement were extended to include Mexico, it is conceivable that truck component manufacturing plants and truck assembly operations could relocate to Mexico to take advantage of lower labour costs. Similarly, if the Autopact Agreement were dissolved, Canadian assembly plants and wholesale parts distributors could lose their present preferred sources of supply for high-quality, engineered components.

This company's view is that this could ultimately affect the ability of specialty truck builders and parts distributors to compete in other export market areas. A low-volume specialty assembler would have more difficulty adjusting to major shifts in component supply than a high-volume mass producer.

MINING

The province's mining sector supports Canada's participation in trilateral free trade negotiations: a trilateral free trade agreement would be in the best interests of the country and would benefit the province's mining industry, while a bilateral agreement between the U.S. and Mexico would not be in Canada's best interests.

According to a major British Columbia-based mining company that is already doing business in Mexico, a trilateral free trade agreement would benefit Canadian companies wanting to invest in Mexico, although there would be few additional export opportunities for the province's mining industry.

Mexico has recently modified its position on foreign investment in mining in order to make it a more attractive place to invest. For example, according to the respondent, it is now possible to own 100 per cent of a venture in Mexico, and tax levels and repatriation of earnings are now more satisfactory. In fact, mining and exploration activities in Mexico have been made more attractive to investors than the same activities in Canada.

This raises the concern about the potential for investment diversion. Mexico and other South American countries are striving to attract foreign investment. This company felt that British Columbia and Canada should be doing the same - there are only so many exploration and development dollars available and they will go where the investment climate is the best.

A bilateral free trade agreement between Mexico and the U.S. will make it even more attractive for Canadian investment in Mexico because of the liberalization of tariffs and duties on both mining products and mining equipment. Canada's participation in such an agreement would also increase opportunities for supplying mining equipment and services from Canada. However, it is believed that there will be little opportunity for increasing British Columbia exports of either finished metal products or concentrates to Mexico under a free trade agreement.

Two respondents from the coal industry, the Coal Association of Canada, and a major British Columbia company, submitted their views. They pointed out that coal is already traded freely between Canada, the U.S. and Mexico. But a trilateral free trade agreement would be beneficial, in the long run, for Canadian coal exporters for the following reasons:

- Mexico's rapid economic growth would result in increased demand for power and steel which may step up coal imports;

- the economic growth and improvement in Mexico's balance of payments which should arise out of a North American Free Trade Agreement should also lead to increased demand and improved markets for coal and coal-related technology imports in Mexico;

- improvements in Mexico's balance of payments situation, and the requirement to be competitive, may result in the relaxation of current policies of coal-sourcing from domestic producers, whose products are generally of lower quality;

- North American coal suppliers may get some advantages over Colombia and Venezuela who are currently viewed as the preferred suppliers to the growing thermal coal market in Mexico; and

- a trilateral agreement would prevent any preferential treatment for U.S. coals that a bilateral agreement between the U.S. and Mexico may lead to.

II. SERVICES

BUSINESS SERVICES

Computer and Data Services

Although the provincial branch of the Canadian Information Processing Society responded to the minister's request for its views on the implications of trilateral free trade for this sector, it did not state a position on the subject. Much of the computing industry in Vancouver is represented in the local section of the association. A quick survey of individuals representing key areas of the software industry in the Lower Mainland was performed by the association. However, the response was so minimal that the association concluded that interest in the issue, or understanding, is currently low.

Doctors

Although the B.C. Medical Association responded to the minister's request for its views on the implications of free trade with Mexico, it did not state a position on the subject.

Engineers

Of the nine companies that responded, eight expressed support for free trade with Mexico and the ninth did not state a position.

British Columbia consulting engineers have traditionally relied on overseas markets for business. The Canadian market is characterized by major projects which occur sporadically, and on its own is not large enough to support the skilled teams required to implement natural resource, transportation and industrial projects.

Mexico is considered to be a potentially good market but is currently difficult to enter due to the measures it takes to protect its own industry. A free trade agreement which opened up Mexico's services sector would be very welcome.

A free trade agreement with Mexico would probably affect British Columbia companies which provide engineering services in the following ways:

- Foreign engineering services to Mexico are subject to a significant tax, affecting at times British Columbia companies' competitive position vis-a-vis Mexican firms. A free trade agreement could remove this restriction, permitting British Columbia engineers to offer services without the heavy taxation which currently makes them very expensive for Mexicans.

  Conversely, a free trade agreement between the U.S. and Mexico which did not include Canada would make it very difficult for British Columbia engineers to compete with U.S. firms if there was a real difference in the taxation rate on their services.

- Free trade may also tend to liberalize restrictions on personnel travelling into Mexico with engineering materials (generally drawings) for the purposes of even limited work on projects there, and minimize the necessity of work permits for limited and temporary work.

- Even prior to free trade negotiations, the Mexican government is creating incentives for foreign investment in a number of industries in Mexico. This will create an indirect benefit for British Columbia engineers wishing to supply services to Canadian companies on projects there.

- There is no concern about Mexican competitors entering the British Columbia/Canadian market as the Mexican work methods, productivity and technology are perceived to be inferior.

Excellent business opportunities in Mexico were identified by respondents for a number of engineering services related to civil works (dams, highways, canals, mines), water resources (water supply and management, water quality, irrigation), geotechnical applications (foundations, earthquake engineering), and environmental management (impact assessment, mitigation planning and design). Apparently, Mexico must look primarily to non-Mexican sources for this form of technology. With respect to these specific opportunities, it was suggested that a trilateral free trade agreement, coupled with the removal of Mexico's legislated barriers to capital and technology imports, would create a positive business climate for British Columbia engineers.

According to a respondent whose expertise is primarily in the province's forestry sector, the improving Mexican economy will generate increasing demands for imported goods and services. For instance, Mexico's limited forest resources will not be able to meet the demands of the Mexican pulp and paper industry. The company predicted that, by the year 2001, an annual shortage of over 1.0 million tons of paper and 2.0 million tons of pulp is predicted. With trilateral free trade, Canadian and British Columbia producers should be presented with a significant market opportunity in this sector.

Therefore, this engineering firm believed that Mexico presents a good market for forest products exports from British Columbia as well as engineering-related services. It also identified market opportunities in the environment rehabilitation and transportation sectors.

Overall, the engineering companies felt that Mexico would become a good market for British Columbia engineers if they could compete in the Mexican market on an even footing with American engineers. A trilateral free trade agreement would be a key factor in achieving this, whereas Canada's exclusion from a U.S.-Mexico agreement would put many British Columbia engineers at a likely insurmountable disadvantage in that market. One respondent emphasized that the federal government's fiscal and monetary policies would, if maintained, erode much of the competitiveness of Canadians seeking to enter the Mexican, or any other, market.

Lawyers

Of the three associations that wrote the minister, only one provided a detailed submission. The West Coast Environmental Law Association explained that it provides legal services for the purpose of protecting the environment and promoting public participation in environmental decision-making. From the association's perspective, free trade with Mexico is a matter of major concern for two reasons:

- it may limit Canada's or British Columbia's authority to establish relatively tough environmental standards; and

- it may limit the public's access to decision-making affecting the environment during the negotiation of an agreement and the operation of such an agreement.

Therefore, the association urged the government of British Columbia to:

- undertake an environmental assessment (with full opportunity for public access to information and involvement) of the potential impact on British Columbia's environment and environmental decision-making process of a trilateral free trade agreement;

- insist that the federal government do the same; and

- oppose any trade agreement with Mexico that:
  - i) would impair the province's ability to set relatively high environmental standards;
  - ii) does not specify that failure to establish and enforce reasonable environmental standards is considered to be a trade subsidy; or
  - iii) does not include mechanisms to facilitate public access to information regarding, and public participation in, decision-making under the agreement.

Management Consultants

The Society of Management Accountants of B.C. expressed its overall support for the trilateral free trade negotiations, pointing out that training opportunities may exist for Canadian organizations able to assist in the re-development of the Mexican economy and labour force. However, it also addressed some specific issues:

- <u>Wage rate differences</u>: A mechanism must be found to ensure that the transfer of jobs to lower labour rate areas does not result in a sudden drop in the Canadian economy before adjustments can be made.

- The movement of labour and professional standards: According to the respondent, this issue, particularly as it relates to professional standards and the movement of professionals, has not been fully resolved under the Canada-U.S. FTA. Canada must be careful to establish appropriate trilateral standards.

- Production costs: Canada may be in a vulnerable position, whether or not a trilateral agreement is concluded. To the extent that production costs in Canada exceed those of producers in other countries, Canadian companies risk losing considerably to developing countries as well as industrialized countries which have larger domestic markets.

CONSTRUCTION

In considering the potential impact a trilateral free trade agreement could have on the residential construction industry in the province, the Canadian Homebuilders' Association pointed out that the construction industry has always been an advocate of the free market and the benefits of competition. Its assessment is that there would be no direct adverse impact on housing prices nor on housing demand in British Columbia.

The association supports those economists who suggest that Canada should participate in discussions about a trilateral free trade agreement, if only to ensure the country's interests are represented.

CONSUMERS

The Consumers Association of Canada has no formal position on the issue of trilateral free trade nor do they anticipate having one in the near future at either the national or provincial level.

ENVIRONMENT AND POLLUTION CONTROL

Only one company submitted its views on the possible implications of free trade on this sector. The company did not state a position but raised a number of concerns:

- Environmental regulations on businesses operating in Mexico are expected to be less stringent than they generally are for operations in British Columbia or the United States. At least initially, therefore, Mexico will be more attractive for locating new industries with pollution concerns than in British Columbia or U.S. jurisdictions. This likely will not be significant in the long term but initially it will result in some impact on the British Columbia industry.

- The purchase of services and technology by Mexico will not be a major benefit to British Columbia. Mexico has well-trained environmental people already and when they seek outside help, the U.S. will likely be favoured over British Columbia due to its closer location, Spanish language capabilities, and because it is where many of Mexico's professionals have been trained. British Columbia has an immature environmental technology base so there do not appear to be any foreseeable benefits for the province from exporting environmental technology.

3. Access by British Columbia companies to Central and South America could be enhanced through a free trade agreement with Mexico. For companies committed to exporting, dealing with Mexico and through Mexico could be a benefit.

FINANCE

Financial Institutions

All five respondents from this sector expressed support or cautious support for Canada's participation in a trilateral free trade agreement.

A respondent from the securities industry did not see any major advantages or disadvantages for the securities industry in British Columbia from participation in a trilateral free trade agreement.

On the positive side, the respondent felt it was likely that a trilateral agreement could provide opportunities for Canadian securities firms to participate in the Mexican financial services marketplace. This would be particularly attractive to the local securities industry given the venture capital nature of the securities market in British Columbia. Mexico's privatization program could also create opportunities for Canadian securities industry participants. There are currently no Mexican securities firms in Canada and it would appear unlikely that any would choose to establish an office in British Columbia.

Another respondent involved in the securities industry stated that it generally supports the easing of trade restrictions since such an action provides a supportive environment for the development of international securities business activity.

The first respondent suggested that one potential negative aspect arises from the question of the harmonization and mutual recognition of standards. While Mexico has a national securities commission and appears to have relatively modern securities laws, these securities laws and practices would need to be carefully reviewed before Mexico's standards could be recognized in Canada. Such a review would hopefully be undertaken during trilateral negotiations.

The Investment Dealers Association of Canada wished to go on record as urging the federal and provincial governments to take a cautious approach to the issue of trilateral free trade. It raised its concern that British Columbians do not have equality of investment access, even into the U.S., with whom Canada already has a free trade agreement. Therefore, presumably, little can really be expected from a free trade agreement with Mexico in this regard. The association also pointed out that Canada and Mexico appear to have quite different business regimes, which likely would not be affected by a free trade deal.

The banking industry expressed support for Canada's participation in free trade negotiations with Mexico. Although participation by Canadian banks in the Mexican financial services market is severely restricted under current law, Canadian banks will continue to have a significant interest in Mexico, both as a result of direct lending to sovereign and private sector borrowers in that country, and as a result of their trade finance activities. Canadian domestic banks' loans outstanding to Mexico totalled $4.2 billion in April 1990.

The banking sector in Mexico is undergoing some important changes: the economy is improving, there is an increase in economic activity, and state-owned banks are being privatized. For instance, one bank noted that legislation is in place in Mexico which will permit minority foreign interests (e.g., Canadian) to be held in Mexican banks. It is possible that majority ownership may eventually be permitted.

Mexico's reform of rules governing financial institutions will likely create opportunities which Canadian and Mexican financial institutions could pursue to mutual benefit, although the respondents felt that Mexican banks are unlikely to become competitors to the Canadian banks. Increased trade between Canada and Mexico is expected to put Canada's banks in a position to offer enhanced services to exporters, importers and investors interested in the Mexican market.

On a more general note, one bank questioned whether the province's private sector will take advantage of the significant opportunities that will be available as a result of trilateral free trade.

Similarly, a company of investment advisors (primarily for business immigrants), while expressing cautious support for the principle of free trade with Mexico, pointed out that a trilateral free trade agreement has the potential to greatly benefit British Columbia only if the business sector can be encouraged to avail itself of the advantages that arise.

This latter company acknowledged that there could be many opportunities for British Columbia companies in Mexico, but expressed doubt that British Columbians can be sufficiently "educated" about them and motivated to take advantage of them. The overall assessment of this company is that British Columbians tend to be naive and ignorant about what it takes to do business in other countries (particularly developing countries) where there is a language barrier, the way of life is very different, social and political differences are significant, and the business culture is very different to that faced in the Canadian, U.S. or Western Europe markets. With this in mind, the potential benefits of free trade may prove to be unattainable for British Columbia companies.

LABOUR, BUSINESS AND RESEARCH ORGANIZATIONS

The B.C. Federation of Labour (BCFL) expressed opposition to free trade with Mexico, and indicated that it would be extremely reluctant to enter into any expanded trade arrangement under the current circumstances being proposed by the federal government.

The BCFL felt the Canada-U.S. FTA has not had a positive influence on the Canadian manufacturing sector, indicating that 200,000 jobs have been lost. Furthermore, the FTA has had a negative impact on the textiles, clothing, fisheries, agriculture and food processing industries in the province and, according to the BCFL, these same sectors will be put further at risk with the expansion of free trade into Mexico.

The BCFL also felt that free trade with Mexico would threaten the quality of life enjoyed in British Columbia and jeopardize the province's economic stability. The only advantage will be corporations' access to cheap labour. According to the respondent, Mexico will sell its cheap labour in order to attract foreign capital. The BCFL raised a number of other issues it felt should be addressed as part of the discussion on trilateral free trade: Mexico's low wages, anti-democratic union practices, the lack of environmental regulations and restrictions, unhealthy and dangerous working conditions, and unprotected consumers. The Canadian Association of Industrial and Allied Workers submitted similar concerns to the minister.

The Vancouver and District Labour Council also expressed opposition to the proposed trilateral free trade negotiations, calling on the government of British Columbia to reject free trade with Mexico. The council suggested that the Canada-U.S. FTA has had a detrimental effect on Canadians, with plants and factories closing, leaving thousands of Canadians out of work. A similar deal with Mexico would have the same effect, and would not provide any benefits to the Mexican people.

The British Columbia Business Council expressed its strong support for the trilateral negotiations, contending that Canada's participation in trilateral trade negotiations with Mexico and the U.S. would preserve the benefits Canada gained from its free trade agreement with the United States.

According to the Business Council, free trade with Mexico offers new opportunities for trade and commerce, especially in the areas of high technology and professional services. Additionally, there may be opportunities for increased exports of British Columbia wood pulp as well as for joint ventures, investments and the provision of professional expertise in the mining, fisheries and forestry sectors.

The Canadian Federation of Independent Business submitted the results of a poll it had undertaken on the subject of trilateral free trade. Of those businesses polled, 59 per cent were in favour of free trade with Mexico, while 26 per cent were opposed (the remainder were undecided or expressed no interest in the issue).

Supporters said that the movement toward a North American free trade area including Mexico is a natural development flowing from the Canada-U.S. Free Trade Agreement, and is necessary to counter the development of large trading blocs in Europe and the Pacific Rim. They also felt that since the U.S. and Mexico intend to enter into negotiations with or without Canada, Canada must be at the table to protect and promote Canadian interests.

Opponents said that if Canada becomes part of a U.S.-Mexico free trade agreement, industry would likely move out of Canada to take advantage of Mexico's cheap labour environment. They also took the position that Canada would be the weak partner in any U.S.-Mexico-Canada deal and so would be better off staying out of any such trade arrangements. Opponents believe that Canada should be pursuing trading options outside of North America instead of becoming more dependent on North American trade.

The Vancouver Board of Trade responded in writing to the minister, explaining that its members strongly support Canada's participation in the negotiations but have not yet determined whether or not a free trade agreement which includes Mexico is desirable for the province.

The Fraser Institute enthusiastically endorsed the prospect of a trilateral agreement. The institute believes such an agreement is a crucial part of following through on the development of freer trading relations in North America and ensuring that North America is competitive in the world marketplace.

The institute pointed out that the United States and Mexico have already agreed to negotiate a bilateral trade deal. Any negative effects which may transpire as a consequence of the agreement will happen whether or not Canada is party to the deal. By participating in the negotiations, and potentially in a final trade agreement, Canada has the opportunity to mitigate some of those negative consequences.

For instance, according to the institute, there undoubtedly is going to be investment diversion from Canada to Mexico. However, given that this will occur as a result of a bilateral United States-Mexico free trade agreement, Canada's participation in a final agreement would minimize the investment diversion.

In the institute's view, the most persuasive argument for supporting a trilateral agreement is what it would mean for the future of manufacturing enterprises in Canada. Citing a recent report by the U.S. International Trade Commission, the respondent pointed out that many jobs have been saved in America because of the opportunity to use components and/or assembly in the Mexican maquiladoras as part of a North American-produced manufactured article. Otherwise, these manufactured articles would have been imported from the Pacific Rim where low-cost manufacturing labour is readily available. Under a trilateral free trade agreement, Mexico would, for the foreseeable future, provide North American industry with "domestic" access to assembly and service labour that otherwise might attract whole products outside of North America.

The respondent highlighted the importance of Canada's inclusion in a North American free trade area by pointing to the development and growth of trading blocs in other regions of the world and to the potential failure of the Uruguay Round of GATT multilateral trade negotiations.

On behalf of its 800 members in the North Okanagan, the Vernon Chamber of Commerce pointed out that the GATT remains important to British Columbia because of the province's dependence on international trade. However, free trade zones, such as the proposed Canada-Mexico-U.S. free trade area, are acceptable under GATT Article XXIV. Therefore, the chamber recommended that:

- Canada participate as a full partner in any free trade negotiations between the U.S. and Mexico;

- Canada ensure that any agreement which emanates from these negotiations does not undermine the gains Canada obtained in the Canada-U.S. FTA, and ensure that any agreement is fully consistent with the GATT; and

- Canadian negotiators pay careful attention to the special features of the Mexican economy, and ensure that these realities do not result in an agreement that is detrimental to Canadian interests. Particular attention should be paid to Mexico's status as a developing economy, and to the wage rate differentials between Canadian and Mexican workers.

RETAIL

Although the Retail Merchants' Association of British Columbia stated that it has no position on the issue of trilateral trade at present, a large department store conveyed its support for free trade discussions with Mexico, focusing mainly on import opportunities. According to the company, there is the potential to import a number of types of products from Mexico which could prove very successful in the British Columbia marketplace, given reduced tariff rates in a trilateral free trade agreement. Many of these products are unique in nature and would retail very well at moderate prices.

There could be some opportunities for retailing other products, such as textiles and clothing, which would also be popular with consumers and available at moderate prices.

As a supply base capable of providing an appropriate product, Mexico could give the British Columbia retail industry a strategic advantage over the dominant eastern Canadian retailers.

TRANSPORTATION

Air

A major western Canadian airline, which is already flying to Mexico, conveyed its support for trilateral free trade. The airline predicted that by easing the removal of trade barriers there will be a general increase in the movement of goods and people between Mexico and Canada. Any increase in trade between British Columbia and Mexico would probably increase the chances of new air services.

Although it is possible that the transportation sector may not be covered by a tripartite free trade agreement, the existing bilateral Air Services Agreement between Mexico and Canada is fairly extensive. According to the respondent, the agreement provides the necessary growth potential to take advantage of any increases which might occur in the number of passengers and cargo as a result of a new trade agreement.

Rail

A railway company, operating in the province, conveyed its general support for trilateral free trade. Although the company has relatively little to do with Mexico in the context of its overall operations, it is involved in two main areas:

- wood pulp destined for Mexico which was originally shipped on the company's railway lines results in revenue for the company as the originating carrier and also for the use of its cars which transport the pulp to Mexico;

- railway car parts have been produced in Mexico in recent years and some of these have been used in Canada when they represented the least cost supply.

Although its experience in dealing with Mexico is limited, the company pointed out that receiving proper payments has frequently been a problem it has had to endure. Slow payments are generally the rule and, on the rare occasion, no payments have been received on accounts due.

A bilateral U.S.-Mexico agreement could have a negative impact on the company if it resulted in a competitive advantage for U.S. pulp producers at the expense of British Columbia producers. A trilateral agreement which included Canada, however, might defend the province's market share of wood pulp. Additionally, such an agreement might benefit the province's railway industry to the extent that Mexican-sourced railway car parts might become less expensive in Canada.

Road

The B.C. Trucking Association provided its initial support to Canada's participation in trilateral trade discussions. It did suggest, however, that the free trade discussions should include a separate consideration of whether or not to include transportation services.

Currently, foreign trucking companies have only limited access to Mexico and vice versa. If free trade in goods means that new opportunities will be created for the distribution of these goods, it is important that British Columbia carriers have equal opportunity to participate in that function. The issues which would have to be considered include taxation, ownership, regulation, standards, safety and access. Trade negotiators should be aware that British Columbia carriers' views on these issues may differ from those held by U.S. carriers.

OTHER SECTORS

Although the following sectors were invited to participate in the consultations, no responses were received from them by the minister prior to the completion of this report:

- advanced technology;
- data processing;
- pharmaceutical;
- plastics;
- steel;
- business services:
  architects
  accounting
  insurance;
- tourism; and
- marine transportation.

COMMON ISSUES RAISED DURING THE NEGOTIATIONS

Labour Wage Rates

An issue that was frequently raised, not only by respondents opposed to trilateral free trade but also by respondents in favour, was the question of the potential effects on British Columbia manufacturers of Mexico's significantly lower wage rates.

The concern most frequently expressed was that, under a free trade agreement, the low wage rates in Mexico would have two main implications for British Columbia:

- A loss of jobs as Canadian companies moved to Mexico to take advantage of lower labour costs. Corporations would be free to shift their production from Canada to Mexico and export back into Canada without hindrance.

- Pressure to reduce wages in Canada. Those companies remaining in Canada would then exert pressure on domestic labour unions for concessions, citing the need to remain competitive and using the threat of relocation as a bargaining lever.

In contrast, some participants in the consultations viewed the lower wage rates for labour in Mexico as being potentially beneficial. For some companies, such as garment manufacturers, there could be some advantage in being able to import fabrics on a duty-free basis from a low-wage country. A North American Free Trade Agreement would give the British Columbia garment manufacturing industry, for example, a cheaper and more "domestic" source of inputs than off-shore imports. The retail industry also views the possibility of more reasonably priced import goods as a benefit.

Investment Diversion

A further issue that was frequently raised by respondents was the potential for a trilateral agreement to divert investment away from British Columbia to Mexico, where labour costs are lower. This could result in a loss of potential investors, particularly from the Orient, who previously viewed British Columbia as an attractive base for exports to the United States.

One example that was given was that investments in British Columbia's aerospace plants and equipment could be diverted away from the province and into Mexico.

Mexico has recently modified its position on foreign investment in mining in order to make it a more attractive place to invest. For example, it is now possible to own 100 per cent of a venture in Mexico and tax levels and repatriation of earnings are now more satisfactory. In fact, mining and exploration activities in Mexico have been made more attractive to investors than the same activities in Canada.

The mining industry, too, raised the concern about the potential for investment diversion, citing the fact that Mexico is striving to attract foreign investment. As a result, British Columbia should be doing the same, since there are only so many exploration and development dollars available and they will go where the investment climate is the most attractive.

This concern about investment diversion was qualified by some respondents, however, who pointed out that this disadvantage will occur whether or not Canada is party to the bilateral negotiations between the U.S. and Mexico. Given that some investment diversion will occur as a result of a bilateral U.S.-Mexico free trade agreement, Canada's participation in a final agreement could minimize the outflow of investment dollars.

Furthermore, respondents from the forest industry identified a positive side to this issue. They concede that the low Mexican labour rates will undoubtedly attract further investment to Mexico, including investment in its secondary wood manufacturing sector. However, the limited supplies of joinery quality wood in Mexico will oblige manufacturers to import large volumes of lumber. And British Columbia is ideally suited to supply this need.

Environmental Standards

A number of respondents commented on the environment-related problems that could arise from a free trade agreement with Mexico. They considered this issue a matter of major concern for several reasons:

- It may limit Canada's or British Columbia's authority to establish appropriate environmental standards. It was suggested that free trade with Mexico would create pressure to reduce environmental standards in Canada in order to enable corporations to compete with producers in Mexico. These corporations would pressure the federal and provincial governments to dilute or lower existing environmental standards in order to match conditions offered in Mexico.

- Investment diversion -- because of its lower environmental standards Mexico would also be able to attract British Columbia companies seeking to establish their processing operations in a jurisdiction with less-restrictive environmental regulations.

- It may limit the public's access to decision-making affecting the environment during the negotiation of a trilateral trade agreement and during the operation of such an agreement.

It was recommended that the provincial government urge the federal government to oppose any trade agreement with Mexico that:

- would impair the province's ability to set relatively high environmental standards;

- does not specify that failure to establish and enforce reasonable environmental standards is considered to be a trade subsidy; or

- does not include mechanisms to facilitate public access to information regarding, and public participation in, decision-making under the agreement.

Domestic Restraints

A number of participants in the consultations expressed their concern about a variety of domestic practices and policies, all of which act as handicaps and disincentives to British Columbia companies attempting to conduct trade-related business activities in foreign markets, particularly the U.S. and Mexico. This concern was not restricted to one sector but was raised by respondents from the agriculture and food processing, communications and telecommunications, beverage and manufacturing industries.

Members of the agriculture industry pointed out that the Canadian Agricultural Product Standards Act (and the related issue of price-setting with local growers), as well as the existing marketing board system, handicap the province's food processors and prevent them from benefiting from liberalized trade. However, no details or examples were provided to indicate how these policies affect the industry's ability to export or its competitiveness in foreign markets.

Non-agriculture manufacturers are concerned that high stumpage rates, interprovincial barriers, and so forth, are all harming their competitive position. The point was made that, before the federal government can realistically enter into negotiations aimed at reducing or eliminating trade barriers in international markets, Canada's own interprovincial barriers must be removed.

Finally, a large number of respondents argued that the federal government's monetary and fiscal policies (resulting in high domestic interest rates and an over-valued Canadian dollar) have made them less competitive in foreign markets. Some suggested that these policies have negated any positive benefits that may otherwise have accrued from the Canada-U.S. FTA.

Industry Motivation

Some participants in the consultations expressed skepticism about the ability or inclination of British Columbia companies to take advantage of the opportunities that will arise from a trilateral free trade agreement. The feeling is that British Columbians and Canadians tend to be naive about what it takes to do business in other countries where there are cultural, social, political and business differences. It was recommended that the provincial government help British Columbians to get to know the opportunities available in Mexico.

Business Practices

The question was posed of how British Columbia companies will be able to compete for business contracts if they do not resort to practicing or participating in unethical business practices. The example was given of British Columbia companies unwilling to participate in unethical activities in order to have their company name placed on the short-list for contracts in Mexico. These companies may find they lose or forego some business there.

Although only one company specifically raised this issue, it was hinted at by some other companies that have done business in Mexico. It was suggested that the issue, although a sensitive one, be raised by Canada during the negotiations. The revision and enforcement of Mexico's competition policy and legislation could resolve this problem, as will privatization and deregulation.

Consultations

Most participants expressed appreciation at the opportunity provided by the consultation process to air their views on the prospects and implications of trilateral trade negotiations. Nevertheless, some of the responses were qualified by skepticism about the willingness of the provincial government to incorporate their views into British Columbia's official position, and the likelihood of the federal government truly paying attention to British Columbia's interests and views.

In addition, a number of participants, particularly associations representing large numbers of people, expressed concern that the deadline imposed by the consultations process did not allow them adequate time to fully confer with their members. Those concerned about the consultations' deadline were informed that, while it was important to receive their views at an early stage, the consultation process would be on-going and they should continue to explore their positions and to communicate with officials of the Ministry of Development, Trade and Tourism.

The question of the type of future consultations that would be possible or desirable between the government and the private sector was raised repeatedly by respondents. Clearly, the private sector assumes that this consultative process was only a preliminary stage of consultations, and that further, more-substantive consultations will be held as the trilateral trade negotiations develop.

CONCLUSIONS

1. The ministry's private sector consultations have been useful for a number of reasons:

   - officials have been able to corroborate internal preliminary assessments regarding the implications of free trade on specific sectors;
   - the provincial government has received new information about British Columbia industries' views and needs as they relate to the possible effects of a North American free trade agreement, which will assist it in establishing the province's negotiating objectives;
   - the province is now in a position to identify sectors for which additional study will be required in order to adequately determine the opportunities or challenges they may face as a result of trilateral free trade; and
   - a communications link has been established between elements of the private sector and the government, which will facilitate the on-going consultative process that will be required as the trilateral negotiations proceed.

2. The 39 per cent response rate to the minister's request for the private sector's views on trilateral free trade is lower than the response rate in the 1986-87 Canada-U.S. FTA consultations but higher than the response rate in the 1988 Uruguay Round of GATT MTN consultations.

   Overall, the majority (71 per cent) of those who took part in the consultations favoured Canada's participation in negotiations leading to an agreement or felt that a trilateral agreement would benefit their industry or the province.

   Of the **96** responses, **49 (or 51 per cent)** expressed support for Canada's participation in trilateral free trade negotiations and optimism about the impacts of a North American free trade agreement, **19 (20 per cent)** urged a cautious approach or were in favour of free trade but had specific concerns, **13 (13 per cent)** were opposed, and **15 (16 per cent)** did not state a definitive position.

3. Respondents made it very clear that they believe Canada must be at the negotiating table. In their view, a bilateral trade deal between the U.S. and Mexico would not be in British Columbia's best interests.

   Whether or not Canada participates in the U.S.-Mexico trade negotiations, many of the negative effects identified throughout the consultations (e.g., investment diversion, export competition in the U.S. market, adjustments for domestic import-sensitive industries) will occur anyway as a result of a U.S.-Mexico bilateral agreement.

4. Opportunities were identified in a wide variety of areas, including:
   - o exports of beverages (cider, water);
   - o exports of telecommunications equipment and services;
   - o the privatization of Mexico's electric industry, which could lead to project development and possibly the operation of new generating and transmission facilities by non-Mexican companies;
   - o exports of backup or standby power generation systems;
   - o the reduction or elimination of high Mexican tariffs, which could improve export opportunities for fish exports;
   - o the reduction or elimination of tariffs on forest products which could benefit exporters of solid wood products (e.g., dimension lumber, plywood);
   - o exports of specialty concrete chemicals and coatings for the construction industry;
   - o exports of chemical forest fire retardants;
   - o imports of cheaper inputs for garment manufacturers;
   - o exports of mining equipment and services;
   - o exports of coal;
   - o management consultation to assist in the redevelopment of the Mexican economy and labour force;
   - o engineering services related to civil works (dams, highways, canals, mines), water resources (water supply and management, water quality, irrigation), geotechnical applications (foundations, earthquake engineering), and environmental management (impact assessment, mitigation planning and design);
   - o exports of pulp and paper;
   - o foreign ownership of Mexican banks;
   - o imports of retail products; and
   - o new air services.

5. It was clearly pointed out, however, that a number of domestic policies may prevent or constrain some British Columbia companies from taking full advantage of these opportunities (e.g., interprovincial barriers, federal monetary and fiscal policies, the Canadian Agricultural Product Standards Act, the marketing board system, and stumpage rates).

   In addition, it was noted that there is a need to educate and motivate British Columbia companies, not only about the opportunities that will arise as a result of trilateral free trade but also about the methods of effectively conducting business in a trilateral market.

6. Respondents from several sectors consider themselves to be vulnerable or potentially at risk should a North American free trade agreement be concluded: Textiles and Clothing, Fisheries, Dried Fruits, Furniture, Cement Manufacturing, Trucking, and Wineries.

7. Further information is needed by the provincial government about certain key sectors which could be negatively affected by a trade agreement with Mexico, or for which the consultations process yielded little information.

8. Assessments of the potential impacts of a trilateral free trade agreement tended to be very preliminary in nature. Since the British Columbia associations, labour unions, and companies that responded encouraged the provincial government to undertake, and indicated a willingness to participate in, further consultations at a more substantive level, it is recommended that the Ministry of Development, Trade and Tourism continue consulting with the private sector as the trilateral trade negotiations proceed.

APPENDIX 1:

BACKGROUND TO TRILATERAL TRADE NEGOTIATIONS

DATES AND EVENTS LEADING UP TO THE TRILATERAL FREE TRADE NEGOTIATIONS

DATE	MILEPOST
Early 1980s	U.S. President Reagan calls for the creation of a continental free trade area.
1986	Mexico joins GATT.
1986	Uruguay Round of GATT negotiations begin.
1987	Mexico and the U.S. sign the Bilateral Understanding on Consultations Regarding Trade and Investment Relations.
January 2, 1988	FTA signed by Canada and the U.S.
January 1, 1989	FTA implemented by Canada and the U.S.
November 1989	Mexico and the U.S. sign a bilateral framework agreement on trade and investment.
March 1990	Canada's Prime Minister Mulroney signs 10 economic and commercial agreements with Mexico's President Salinas.
June 11, 1990	Mexico and the U.S. agree in principle to move toward negotiating a bilateral free trade agreement.
June 27, 1990	President Bush announces Enterprise for the Americas initiative.
August 8, 1990	The U.S. and Mexico announce their plans to initiate bilateral free trade negotiations.
September 24, 1990	Canada announces it will participate in preliminary discussions with Mexico and the U.S. to establish the basis for subsequent negotiations on a trilateral free trade arrangement.
October 1990	Preliminary trilateral consultations begin.
December 1990	Suspension of Uruguay Round of GATT talks.
January 1991	Preliminary tripartite consultations concluded in Washington, D.C.
February 5, 1991	Formal announcement by Canada, Mexico and the United States of trilateral free trade negotiations.
June 1991	Initiation of North American free trade negotiations.

APPENDIX 2:

MINISTRY DISCUSSION PAPER

BRITISH COLUMBIA AND MEXICO
THE TRILATERAL FREE TRADE PROPOSAL

A DISCUSSION PAPER

BACKGROUND

On June 10, 1990, U.S. President Bush and Mexican President Salinas endorsed the objective of a comprehensive free trade agreement between their two countries. An announcement of formal trade talks between Mexico and the U.S. was not expected until December, 1990, but the two countries accelerated their timetable for bilateral free trade negotiations and made the announcement in mid-August, 1990.

On September 24, 1990, the Honourable John Crosbie, federal Minister for International Trade, announced that the Government of Canada had expressed to the U.S. and Mexico its desire to participate in the negotiations with a view to negotiating a trilateral free trade agreement.

On September 25, 1990, President Bush wrote Congress seeking approval for authority to negotiate a "fast-track" trade deal with Mexico and Canada, similar to that which was granted for the negotiations leading to the Canada-U.S. Free Trade Agreement (FTA).

The Government of Canada has suggested it will follow a two-step process. The first step involves Canada, Mexico, and the U.S. participating in preliminary consultations to examine the scope, elements and procedures that could form the basis for trilateral free trade negotiations. The first of these preliminary talks took place in Houston, Texas, on October 16, 1990.

Should these preliminary consultations prove successful, the second step, formal free trade negotiations, could be initiated as early as the Spring of 1991. If agreement cannot be reached by the three countries during the preliminary talks, the federal government has indicated that it is prepared to leave the negotiating table and see the U.S. and Mexico pursue bilateral free trade negotiations.

BRITISH COLUMBIA-MEXICO TRADE RELATIONSHIP

A trade pact linking the U.S., Mexico and Canada would create a single market of almost 360 million people and a combined economy of about $6 trillion.

Although Mexico is Canada's

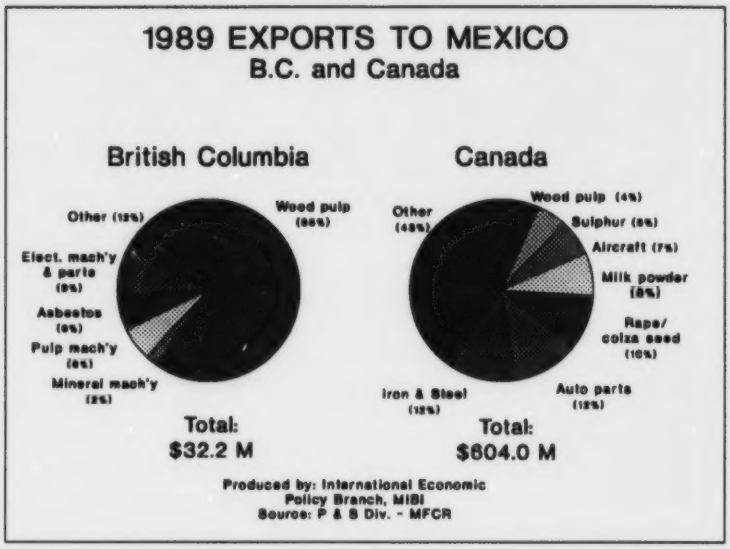
most important trade partner in Latin America, economic ties between the two countries are relatively modest.

Overall, Mexico is Canada's 17th most important export destination, accounting for $604 million worth of Canadian exports in 1989. Total trade between Mexico and Canada was worth $2.3 billion in 1989.

Mexico has traditionally held a trade surplus vis-a-vis Canada, and in 1989 this trend continued as Mexico had a trade surplus of $1.1 billion.

At present, British Columbia's trade with Mexico is minimal. In 1989, the province exported $32 million worth of goods to Mexico, making it the province's 26th largest export market overall. British Columbia's top exports to Mexico in 1989 were pulp (which made up two-thirds of the province's total exports to Mexico), electrical machinery, equipment and parts, asbestos, and machinery for pulp and mineral production.

However, past trade trends may not tell us much about future prospects. The Mexican government has taken significant steps over the past few years to open up the Mexican market to foreign trade and investment. The high tariffs and import licensing systems which previously



impeded British Columbia's trade with Mexico have been significantly liberalized, and further reductions are expected as a result of Mexico's participation in the GATT Multilateral Trade Negotiations (MTN).

In addition, Mexican economic growth is forecast to outpace growth rates of both Canada and the U.S., therefore it is an increasingly richer market.

Thus, free trade with Mexico may create some attractive potential market opportunities for British Columbia exporters in such diverse areas as newsprint, telecommunications equipment and services, mineral extraction and processing equipment and services, and tourism development.

Roughly 80% of Mexico's exports to Canada already arrive duty free. While freer trade with Mexico may put pressure on some sectors in British Columbia, these same sectors are in a much stronger position to cope with this import competition, having undergone adjustment as a result of increased multi-lateral and bilateral trade liberalization.

Insofar as the U.S. and Mexico have already committed themselves to establishing a bilateral free trade pact, British Columbia's competitive advantage under the Canada-U.S. FTA may be eroded if Mexico negotiates similar preferential treatment. On the other hand, if Canada is at the negotiating table, it may have the chance to influence the agenda for the negotiations and perhaps even find areas where Mexico and Canada could work together to achieve common trade goals.

POSSIBLE IMPACTS OF A TRILATERAL FREE TRADE AGREEMENT

Whether or not Canada participates in the U.S.-Mexico free trade negotiations, there will likely be some increased competition for British Columbia exporters in the U.S. and Mexican markets as well as some risk of investment diversion to Mexico. A free trade agreement with Mexico could affect British Columbia in any of the following five ways:

1) Increased export competition in the U.S. market - A U.S.-Mexico FTA would give Mexican producers special access to the U.S. market very similar to the access Canada gained under its FTA with the U.S.

However, based on a preliminary provincial government assessment, it appears there will be few serious competitive pressures for British Columbia industries currently exporting to the U.S., as a result of a U.S.-Mexico bilateral FTA or a Mexico-Canada-U.S. trilateral FTA. At this early stage, there is also little evidence that Canada's participation in the Mexico-Canada-U.S. free trade negotiations will significantly improve British Columbia's competitive position in the U.S. market vis-a-vis Mexican products.

2) Increased import competition in British Columbia - Should Canada choose to participate in a trilateral free trade agreement with Mexico and the U.S., certain domestic industries may face some competitive pressures due to the increased number of Mexican products and services entering the Canadian market at preferential rates. Sectors likely to be affected include the horticultural and textile/clothing industries, although these industries are already adjusting to international competitive pressures.

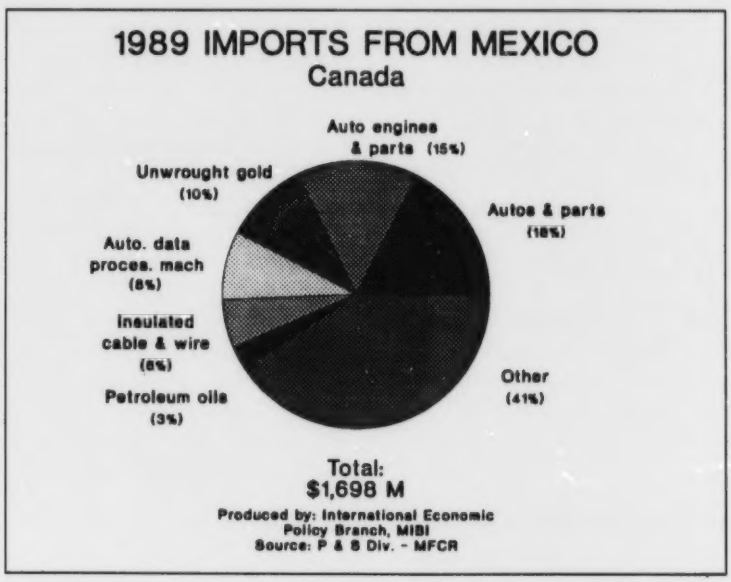
3) Increased export opportunities for British Columbia in Mexico - British Columbia may experience a modest increase in export opportunities in Mexico as a result of:

a) Mexico's recent efforts to unilaterally lower tariff and non-tariff barriers;

b) the trade liberalization which may occur in the Mexican market as a result of the conclusion of the GATT MTN; and

c) the trade liberalization which would result from a trilateral free trade agreement.

4) Increased export competition in the Mexican market - A bilateral free trade agreement between Mexico and the U.S. would give U.S. producers preferential access to the Mexican market. This, in turn, could negatively impact on the competitiveness of Canadian exporters in the Mexican market.



5) Possible investment diversion - Whether or not Canada participates in the U.S.-Mexico free trade negotiations, there is some risk of current and potential investment diversion from British Columbia to the U.S. and Mexico. While in many cases British Columbia will remain an attractive location for offshore investors, the lure of British Columbia's enhanced U.S. market access under the FTA will have less significance if Mexico is able to offer investors the same enhanced access to the U.S. market.

BRITISH COLUMBIA'S APPROACH TO CANADA-U.S.-MEXICO FREE TRADE

British Columbia has traditionally been a strong supporter of efforts to liberalize international trade (e.g., the Canada-U.S. FTA, and the GATT multilateral trade negotiations), because it is highly dependent on exports for its economic well-being.

However, unlike the U.S., the countries of the Pacific Rim, or the European Community, Mexico is not currently an important export destination for the Province. Mexico's recent economic liberalization efforts may, however, make it a much more desirable market in the future.

While the Province supports the liberalization of world trade, the key question to be asked is: do we know enough about the potential impacts of free trade with Mexico to proceed with these negotiations?

While there may be some merit in proceeding, the Province nevertheless wishes to study the trilateral free trade initiative carefully before committing its support to it. At this point, there is very little quantitative evidence available as to the costs or benefits of a North American free trade agreement.

The potential for a North American free trade zone raises a number of fundamental questions which must be addressed by British Columbians. For example:

- Can British Columbia's interests best be served from within a North American trade bloc or from without?
- Will a North American free trade agreement result in trade creation or trade diversion?
- What will be the long term impact on the international trading system of such a regional trade arrangement?
- What will be the benefits to British Columbia from such a trade arrangement? Will they outweigh the costs or adjustments that may be required in the province?

The Government of British Columbia has always attached a high priority to eliciting the views of the Province's private sector before proceeding with any major trade initiatives. For instance, the Province undertook a comprehensive series of private sector consultations on both the bilateral free trade negotiations with the U.S. and on the Uruguay Round of GATT multilateral trade negotiations.

British Columbia intends to take the time necessary to consult and to analyze the impacts and potential benefits of trilateral free trade on the Province. Only when this process has been completed will the Province have the necessary information to develop its recommendations to the federal government, and officially communicate British Columbia's position on the negotiations.

INTERNATIONAL ECONOMIC POLICY BRANCH

TRADE WITH MEXICO

EXPORTS FROM BRITISH COLUMBIA

COMMODITIES	1989 $ millions	1988 $ millions	88/89 % change
Wood pulp	21.1	33.5	-37
Elect. mach., equip & parts	2.7	0.7	286
Asbestos	2.1	1.2	75
Other	6.4	7.5	-15
TOTAL (All Commodities)	32.3	42.9	-25

TOTAL EXPORTS FROM CANADA

COMMODITIES	1989 $ millions	1988 $ millions	88/89 % change
Iron & steel	71.3	38.2	87
Auto parts & accessories	71.0	50.3	41
Rape or colza seeds	59.3	54.3	9
Milk powder	45.9	42.0	9
Helicopters	39.9	4.4	807
Other	316.6	299.8	6
TOTAL (All Commodities)	604.0	489.0	24

IMPORTS INTO CANADA

COMMODITIES	1989 $ millions	1988 $ millions	88/89 % change
Auto parts & accessories	224.1	179.6	25
Egine parts	215.9	217.0	-1
Gold	172.1	69.7	147
Auto. data proc. machines	140.7	84.7	66
Insulated wire	98.5	106.9	-8
Other	847.1	673.3	26
TOTAL (All Commodities)	1698.4	1331.2	28

Source: Planning & Statistics Division, Ministry of Finance & Corporate Relations

APPENDIX 3:

MEXICO FACT SHEET
AND B.C.-MEXICO TRADE CHART

MEXICO FACT SHEET

rev. 26/Apr/91

President:	Carlos Salinas de Gortari
Area:	1,958,201 sq. kms.
Population:	86.4 million (July 1989)
Language:	Spanish
Real GDP Growth Rate:	3.2% (1990 est.)
Inflation Rate:	29.9% (1990 est.)
Unemployment Rate:	19% (1988)
Currency:	Peso
Exchange Rate:	Cdn.$1.00 = 2,564 pesos (March 14, 1991)
GDP:	US$147.8 billion (1989 est.)
Per Capita Income:	US$1820.00 (1989 est.)

Major Trade Partners:

1989 % of Total Exports		1989 % of Total Imports	
1) United States	63.3%	1) United States	67.0%
2) Japan	7.1%	2) Japan	5.3%
3) Spain	6.6%	3) West Germany	4.1%
4) France	3.2%	4) France	2.3%
5) United Kingdom	2.5%	5) United Kingdom	1.9%
6) Canada	2.4%	6) Canada	1.8%

Major Trade Commodities:

1987 Exports		1987 Imports	
1) Crude petroleum	38.1%	1) Motor vehicle parts	7.8%
2) Motor vehicle engines & parts	8.4%	2) Maize	2.2%
3) Raw coffee	2.4%	3) Soya beans	1.7%
4) Frozen shrimps & prawns	2.1%	4) Sugar	1.5%
5) Tomatoes (fresh)	1.0%	5) Aircraft & parts	1.5%

Major Trade with Canada:

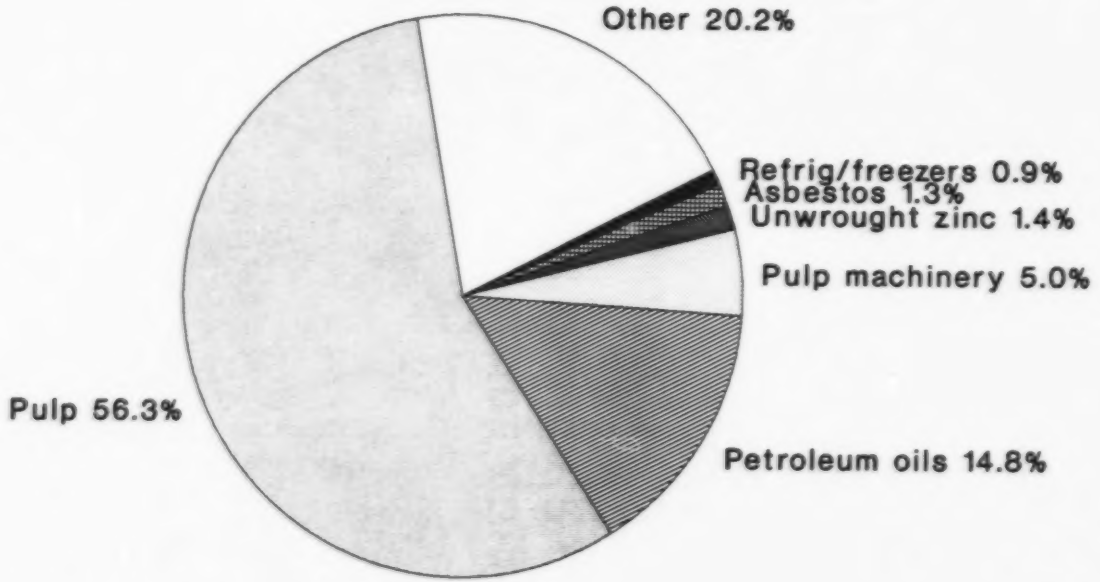
1990 Exports (prelim) to Canada (Cdn $ M)		1990 Imports (prelim) from Canada (Cdn $ M)	
1) Motor vehicles & parts	$276.8	1) Concentrated milk	$72.5
2) Spark ignition-type engines	$274.7	2) Motor veh. parts & accessories	$64.4
3) Auto. data proc. machines	$165.0	3) Iron & steel	$56.5
4) Passenger vehicles	$110.2	4) Helicopters	$37.4
5) Insulated wire & cable	$92.7	5) Elec. app for telephony/telegraph	$37.1
Other	$810.4	Other	$325.7
Total	$1,729.8	Total	$593.7

Major Imports from British Columbia:

1989 Imports (Cdn $ million)		Prelim. 1990 Imports (Cdn $ million)	
1) Wood pulp	$21.1	1) Wood pulp	$19.2
2) Elect. mach'y, equip & parts	$2.7	2) Petroleum oils	$5.1
3) Asbestos	$2.1	3) Machinery for pulp production	$1.7
4) Mach'y for pulp production	$1.9	4) Unwrought zinc	$0.5
5) Mach. for mineral production	$0.7	3) Asbestos	$0.4
Other	$3.7	Other	$7.2
Total	$32.2	Total	$34.2

INTERNATIONAL ECONOMIC POLICY BRANCH
Ministry of Development, Trade, and Tourism

British Columbia Exports to Mexico - Preliminary 1990



Total: $34.2 million

Produced by: International Economic Policy Branch, MDTT
Source: Ministry of Finance and Corporate Relations
Planning & Statistics Division

APPENDIX 4:

PRIVATE SECTOR OPINIONS ON THE TRILATERAL FREE TRADE AGREEMENT

PRIVATE SECTOR OPINIONS ON TRILATERAL FREE TRADE

In Favour or Cautiously in Favour

- Aerospace
- Agriculture and Food Processing (overall)
- Beverages - Cider
- Beverages - Water
- Business Associations
- Business Services - Engineers
- Business Services - Management Consultants
- Cement (overall)
- Chemicals
- Communications and Telecommunications
- Construction
- Electronics
- Energy
- Environment and Pollution Control
- Finance - Financial Institutions
- Forestry - Lumber
- Forestry - Pulp and Paper
- Forestry - Value-Added
- Machinery and Equipment
- Manufacturing
- Marine and Subsea
- Mining
- Retail
- Sports Equipment
- Transportation Equipment
- Transportation Services - Air
- Transportation Services - Rail
- Transportation Services - Road

Opposed

- Beverages - Wine (overall)
- Business Services - Lawyers
- Fisheries
- Furniture
- Labour Unions
- Textiles and Clothing

Responded, But No Position Stated

- Beverages - Beer
- Business Services - Computer and Data
- Business Services - Doctors
- Consumers

Did Not Respond/Position Unknown

- Advanced Technology
- Business Services - Architects
- Business Services - Accounting
- Data Processing
- Finance - Insurance
- Forestry - High Tech
- Pharmaceutical
- Plastics
- Steel
- Tourism
- Transportation Services - Marine

APPENDIX 5:

CHART: BREAKDOWN OF RESPONSES BY SECTOR

SECTOR	FOR	CAUTIOUS	AGAINST	N/A
I. GOODS				
AEROSPACE	1	1	-	-
AGRICULTURE/ FOOD PROCESSING	3	3	3	1
ADVANCED TECHNOLOGY	-	-	-	-
BEVERAGES				
BEER	-	-	-	1
CIDER	1	-	-	-
WATER	1	-	-	-
WINERIES	-	1	1	1
COMMUNICATIONS AND TELECOMMUNICATIONS	3	-	-	1
DATA PROCESSING	-	-	-	-
ELECTRONICS	2	-	-	-
ENERGY	3	-	-	-

SECTOR	FOR	CAUTIOUS	AGAINST	N/A
FISHERIES	-	1	2	-
FORESTRY				
FURNITURE	-	-	1	-
VALUE ADDED	-	1	-	-
LUMBER	1			
PAPER	-	2	1	-
HIGH-TECH	-	-	-	-
MANUFACTURING	1	-	-	-
CEMENT	-	1	-	2
CHEMICALS	2	-	-	-
MACHINERY AND EQUIPMENT	4	-	-	-
MARINE AND SUBSEA	1	-	-	-
PHARMACEUTICAL	-	-	-	-

SECTOR	FOR	CAUTIOUS	AGAINST	N/A
PLASTICS	-	-	-	-
SPORTS EQUIPMENT	-	1	-	-
STEEL	-	-	-	-
TEXTILES AND CLOTHING	1	2	3	-
TRANSPORTATION EQUIPMENT	1	1	-	-
MINING	3	-	-	-
II. SERVICES				
BUSINESS SERVICES				
ARCHITECTS	-	-	-	-
ACCOUNTING	-	-	-	-
COMPUTER AND DATA	-	-	-	1
DOCTORS	-	-	-	1
ENGINEERS	8	-	-	1

SECTOR	FOR	CAUTIOUS	AGAINST	N/A
LAWYERS	-	-	1	2
MANAGEMENT CONSULTANTS	1	-	-	-
CONSTRUCTION	1	-	-	-
CONSUMERS	-	-	-	1
ENVIRONMENT AND POLLUTION CONTROL	-	1	-	-
FINANCE				
FINANCIAL INSTITUTIONS	3	3	-	-
INSURANCE	-	-	-	-
LABOUR, BUSINESS AND RESEARCH	5	-	2	1
RETAIL	1	-	-	1
TOURISM	-	-	-	-

SECTOR	FOR	CAUTIOUS	AGAINST	N/A
TRANSPORTATION				
AIR	1	-	-	-
MARINE	-	-	-	-
RAIL	1	-	-	-
ROAD	-	1	-	-